

LAW OFFICES  
ROSENSTOCK, BURGEE & WELTY, P.A.  
BLACK HORSE SQUARE  
117 WEST PATRICK STREET  
P. O. BOX 688  
FREDERICK, MARYLAND 21701

BENJAMIN B. ROSENSTOCK (1902-1979)  
RICHARD R. BURGEE  
JOSEPH S. WELTY  
LAWRENCE E. FINEGAN  
ALAN L. WINIK  
JOHN W. CHILLAS  
DAVID A. SEVERN  
LYLE N. STAPLES

November 29, 1983

RECORDATION NO. 14203  
NOV 30 1983 - 10 40 AM  
INTERSTATE COMMERCE COMMISSION

AREA CODE 301  
662-5155  
695-8460

3-334A040

No.  
Date NOV 30 1983  
Fee \$ 50.00  
ICC Washington, D.C.

RECEIVED  
NOV 30 10 31 AM '83  
I.C.C.  
FEE OPERATION BR.

Ms. Mildred Lee  
Interstate Commerce Commission  
Room 2303  
12th & Constitution Avenue, N.W.  
Washington, D. C. 20423

RE: Security Agreement-  
Maryland Midland Railway, Inc./  
Farmers & Mechanics National Bank

Dear Ms. Lee:

Enclosed please find a Security Agreement, a certified copy of the Security Agreement and a check for \$50.00 to cover the recording of same.

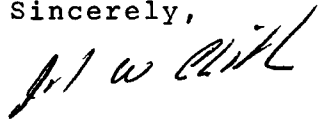
This Security Agreement is made between the Maryland Midland Railway, Inc., 34 Pennsylvania Avenue, P.O. Box 455, Walkersville, Maryland 21793, debtor, and Farmers and Mechanics National Bank, 154 N. Market Street, Frederick, Maryland 21701, the secured party. The Security Agreement covers the following items of personal property:

- 1 Alco RS-3 Locomotive, Road Number 301, Builder's Number 81359
- 1 GMC/EMD, Model SD-24 Locomotive, Road Number 6244, Serial Number 25201
- 1 GMC/EMD, Model SD-24 Locomotive, Road Number 6250, Serial Number 25207
- 1 GMC/EMD, Model SD-24 Locomotive, Road Number 6252, Serial Number 25209
- 1 GMC/EMD, Model SD-24 Locomotive, Road Number 6255, Serial Number 25212
- 1 Whitcomb Locomotive, Road Number 102, Builder's Number 60471
- 1 Steel Box Car, Road Number 8001
- 1 Steel Box Car, Road Number 8002
- 1 Steel Box Car, Road Number 8003
- 1 Gondola Car, Road Number 201
- 1 Flat Car, Road Number 6001
- 1 Passenger Coach, Road Number 6415
- 2 Track Cars (motorized)
- 1 Ballast Car, Road Number 1564
- 1 Ballast Regulator, Model 2FW-J, Serial Number 2FW-652

Interstate Commerce Commission  
November 29, 1983  
Page 2

If you should have any questions with regards to this matter, my direct line from Washington, D.C. is 428-9539.

Sincerely,

A handwritten signature in dark ink, appearing to read "J W Chillas", written in a cursive style.

John W. Chillas

JWC:lmd

Enclosures

**Interstate Commerce Commission**  
**Washington, D.C. 20423**

**OFFICE OF THE SECRETARY**

John W. Chillas  
Law Offices  
Rosenstock, Burgee & Welty, P.A.  
Black Horse Square  
117 West Patrick Street  
P. O. Box 688  
Frederick, Maryland 21701

d

November 30, 1983

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 11/30/83 at 10:40AM and assigned recordation number(s). 14203

Sincerely yours,

*Agatha L. Mergenovich*  
Agatha L. Mergenovich  
Secretary

Enclosure(s)

NOV 30 1983 - 10 40 AM

## INTERSTATE COMMERCE COMMISSION

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made this 30<sup>th</sup> day of September, 1983, by and between Maryland Midland Railway, Inc., hereinafter called the "Debtor", whose main office is at 34 Pennsylvania Avenue, Post Office Box 455, Walkersville, Maryland 21793 and Farmers and Mechanics National Bank, a National banking association, with its Main Office at 154 North Market Street, Frederick, Maryland 21701, hereinafter called the "Bank", and the Debtor and Bank do hereby agree as follows:

1. Creation of Security Interests. For value received by the Debtor from the Bank, receipt of which is acknowledged prior to the execution of this Security Agreement, hereinafter referred to as "Agreement", the Debtor does hereby grant to the Bank a security interest in the collateral listed in Section 2. to secure the payment and performance, as the case may be, of all the obligations of the Debtor to the Bank under this Agreement.

2. Collateral and Agreements Pertaining Thereto.

A. As used in this Agreement, the terms "Account", "Contract Right", "Instrument", "Chattel Paper", "Equipment", "Mortgages" and "General intangibles" have the same meaning as found for the respective terms in Title 9 of the Commercial Law Article of the Annotated Code of Maryland in effect on the date this Agreement was executed. In addition to any other meaning of the term "General intangibles", it is to include the right the Debtor has to payment of money by virtue of any lease, easement, or right of way with any third party for the use of Debtor's property; any interchange agreements with other railways, and it is also to include any license, permit or other permission necessary to operate the Debtor's railroad business. All other terms relating to the collateral shall likewise have the meaning set forth in the above mentioned law.

(1) "Debtor's Liabilities" means all present and future liabilities and obligations of the Debtor to Bank hereunder, under this Agreement, and all other liabilities and obligations of the Debtor to Bank of every kind and description, now existing or hereafter owing, matured or unmatured, direct or indirect, absolute or contingent, joint or several, including any extensions and renewals thereof and substitutions therefor.

(2) "Purchaser" includes the buyer of any goods from the Debtor, the customer for whom services have been rendered or materials furnished by the Debtor, or the party with whom the Debtor has contracted.

B. As collateral security for all of Debtor's liabilities to Bank present and future, Debtor hereby grants to Bank a continuing security interest in and assigns and transfers to Bank the following Collateral:

(1) all of Debtor's Accounts including all existing Accounts and all Accounts hereafter coming into existence;

(2) all of Debtor's Contract Rights including all existing Contract Rights and all Contract Rights hereafter coming into existence;

(3) all Instruments held by Debtor regardless of whether they may be in existence at the present time or may be executed in the future and regardless of when they may be acquired by the Debtor;

(4) all Chattel Paper held by Debtor regardless of whether it may be in existence at the present time or may arise in the future and regardless of when it may be acquired by Debtor;

(5) all interest owned by Debtor now existing or hereafter arising in goods as to which an Account for goods sold or delivered or services rendered has arisen or as to which any Chattel Paper has been executed and delivered to Debtor (herein sometimes called "Goods");

(6) all notes, drafts, acceptances, instruments, documents of title, policies and certificates of insurance, chattel paper, guarantees and securities now or hereafter received by Debtor or in which Debtor has or acquires an interest in connection with its Accounts and Contract Rights;

(7) all interest of Debtor now existing or hereafter acquired in General intangibles, Mortgages and all money due or to become due to the Debtor;

(8) all books, records and writings of any kind now existing or hereafter coming into existence of the Debtor in any way related to or pertaining to any collateral;

(9) All cash and non-cash proceeds of the foregoing.

C. Debtor hereby gives the Bank a security interest in that equipment listed on Exhibit 2 which is attached hereto, said equipment being herein referred to as Collateral.

D. So long as this Agreement continues to be in effect and until such time as all loans made hereunder and all other of Debtor's Liabilities to Bank have been fully paid and discharged, Debtor covenants and agrees that;

(1) Debtor will, on demand of Bank, make available to the latter: shipping and delivery receipts evidencing the shipment or delivery of the Goods which gave rise to an Account, Instrument or Chattel Paper; completion certificates or other proof of the satisfactory performance of services which gave rise to an Account, Instrument or Chattel Paper; a copy of the invoice or bill of lading for each Account, Instrument or Chattel Paper arose.

(2) Debtor will furnish Bank with agings of its accounts receivable and accounts payable in such form and at such frequency as Bank may specify but not more frequently than monthly.

(3) Debtor will maintain, in accordance with sound accounting practice, accurate records and books of account showing, among other things, all Accounts, Contract Rights, Instruments and Chattel Paper, and the collections thereon; and that Bank shall have the right to call at Debtor's place of business at intervals to be determined by Bank, and without hindrance or delay, to inspect, audit, check and make extracts from the books, records, ledgers, journals, orders, receipts, correspondence, and other data relating to Accounts, Contract Rights, Instruments or Chattel Paper, or to Debtor's Liabilities to Bank; and that Debtor will reimburse Bank for the entire cost of such inspections, audits, checks and extractions.

(4) Debtor will not factor any of its present or future Accounts, nor will Debtor in any other manner or for any other purpose, assign or transfer, either absolutely or as collateral, any of its present or future Accounts except in favor of Bank.

(5) Debtor shall provide to Bank an audited financial statement within ninety (90) days following the end of each fiscal year; and Debtor will permit Bank or its nominee to examine all of Borrower's records relating thereto at any time, and to make extracts therefrom at Debtor's expense.

(6) The Collateral will be kept in a good state of repair and will not be wasted, destroyed, misused or allowed to deteriorate, ordinary wear and tear excepted. Equipment collateral will be kept and

used in the Debtor's railroad operation at various locations along its right of way where the Secured Party may inspect it at any reasonable time, unless the Secured Party consents in writing to its removal. Consent in writing for the removal of Collateral for purposes of repair, temporarily, that is, for less than thirty (30) days, is not necessary.

(7) All Collateral will be insured at Debtor's expense until this Agreement is terminated against all expected risks to which it is exposed and those which may designate, with the policies acceptable to Secured Party.

(8) Debtor shall not transfer, create or permit to be acquired any interest in or against any Collateral, or permit any charge, including rent and taxes, to remain unpaid to or by any third person without first obtaining the written consent of the Secured Party. If the Debtor should dispose or encumber the Collateral in the above manner without first receiving written consent, such action shall constitute a default by the Debtor of this Agreement.

(9) Debtor shall at all times keep the collateral and the proceeds from any authorized disposition identifiable and separate from the property of any third person. Cash proceeds shall be separately maintained and shall not be comingled with other cash funds of the Debtor without written consent of the Bank.

(10) The Debtor shall at its own expense from time to time, replace and repair all parts of the Equipment Collateral as may be broken, worn, or damaged. In the event of default and foreclosure under the provisions of this Agreement, the Bank may cause such repairs or replacements to be made. The cost of replacements and repairs made by the Bank and cost of necessary labor, supplies or parts furnished by the Secured Party for use on or in connection with the Collateral shall become an additional lien on the Collateral secured by this Agreement, and payable on demand with interest as stated in Section 10. D.

. The Debtor shall permit the Bank to have free access to all Collateral at all reasonable times. The Debtor shall pay for repairs and replacement parts and all taxes charged against, assessed, or imposed upon the Collateral at any valuation thereof. In the event of a default by the Debtor in paying such repairs or replacement part bills or taxes, it shall be lawful for the Bank to pay and discharge the same, and such amount or amounts so expended by the Bank in the payment of discharge of

such taxes shall become an additional lien upon the Collateral, secured by this Agreement, and payable on demand with interest as stated in paragraph

3. Other Obligations of Debtor.

A. This Agreement shall remain in effect until such time as all of Debtor's liabilities to Bank under this Agreement or otherwise have been fully paid and discharged.

B. Debtor will pay and discharge when due all taxes, levies, and other charges on its property;

C. Debtor will not create, incur or assume any liability for borrowed money except for borrowings from Bank without first obtaining the prior written approval of Bank.

D. Debtor will not assume, guarantee, endorse or otherwise become liable in connection with the obligations of any person, firm or corporation except by endorsement of instruments for deposit or collection or similar transactions in the ordinary course of business;

E. Debtor will not enter into any merger or consolidation, or sell or lease all or substantially all of its assets, or liquidate or dissolve;

F. Debtor will not purchase or acquire the obligation or stock of any person, firm or corporation or other enterprise whatsoever (unless the Bank consents to same) other than direct obligations of the United States.

G. Debtor will not directly or indirectly; declare or pay any dividend (except dividends payable solely in shares of its stock) on, or order or make any other distribution on account of any shares of any class of its stock other than preferred now or hereafter outstanding; redeem, retire, purchase or otherwise acquire (except for a consideration consisting solely of shares of its stock) any shares of any class of its stock now or hereafter outstanding or in the treasury; award bonuses or make loans to any executive or officer of the Debtor; or set aside any sum or property for any such purpose.

H. Debtor will not materially alter, amend or change its capital structure or line or scope of business or engage in business ventures other than those in which it is presently engaged or change in any substantial respect its method of operating the business in which it is engaged;



I. Debtor will not mortgage, pledge, hypothecate or give or contract to give any security interest of any kind in any of Debtor's property or assets of any kind, tangible or intangible including without limitation, Debtor's Accounts and Instruments to anyone except Bank, or sell or otherwise dispose of any of its property or assets of any kind except in the normal course of business, except in favor of the Bank.

J. Debtor will henceforth incur no obligation for the purchase or lease of fixed assets in excess of \$15,000.00 in any one instance, but will obtain the Bank's consent prior to making such expenditure or entering into such lease, provided, however, this shall not prohibit the renewal or extension of existing leases.

K. Debtor will promptly advise Bank in writing of any change in the location of its chief place of business as listed on the first page of this Agreement, or the office where it keeps its records concerning all Accounts, or Instruments, or its opening of any new places of business, and of the closing of any of its existing places of business.

L. Debtor shall, as Bank may request and require, procure and deliver to Bank or execute any Security Agreement, Financing Statement or other writing necessary to create, preserve, protect or enforce Bank's rights and interest under this Agreement to or in the collateral described in Section 2, or in any other collateral agreed to by the parties.

M. Collateral will be insured against all risks of loss at the Debtor's expense until this Agreement is terminated, against all expected risks to which it is exposed, and those which the Bank may designate, with policies acceptable to the Bank and payable to both the Bank and the Debtor, as their interests may appear, and with duplicate policies deposited with the Debtor.

N. Debtor will exclusively use the Bank as the Depository Bank for all of its monies.

4. Debtor's Obligation to Pay. The Debtor shall pay the Bank the total principal sum of Nine Hundred Thousand Dollars (\$900,000.00) which sum is incurred pursuant to this Agreement, and in accordance with the terms, conditions, and provisions of a certain promissory note executed by the Debtor on even date with this Agreement, a copy of which is attached hereto as Exhibit 1 (hereinafter called the "Note").

5. Representations of Debtor. The Debtor hereby represents to Bank as follows:

A. The Debtor is duly incorporated, validly existing and in good standing under the laws of the State of Maryland, and is duly qualified to transact business in each state or other jurisdiction in the United States of America or elsewhere in which it conducts any important or material part of its business; and the Debtor has the power to make this Agreement and to borrow hereunder. The Debtor is in full compliance with all Federal, state and local laws, rules and regulations that govern its business.

B. The making and performance by the Debtor of this Agreement and the Note executed hereunder have been duly authorized by all necessary Corporate action and will not violate any provision of any Federal, state or local law or any rule or regulation thereunder or of its Charter or By-Laws, or result in the breach of or constitute a default under, or require any consent order, or result in the creation of any lien, charge, or encumbrance upon any property or assets of the Debtor pursuant to, any indenture or other agreement or instrument to which the Debtor is a party or by which the Debtor or its property may be bound or affected.

C. There are no suits or proceedings pending or to the knowledge of the Debtor threatened, against or affecting the Debtor which, if adversely determined, would have a material adverse effect on the financial condition or business of the Debtor, and there are no proceedings by or before any governmental commission, body or agency pending or to the knowledge of the Debtor threatened against the Debtor.

D. That Debtor's books, all financial or credit statements, statements and schedules of accounts, invoices, statement on the aging of accounts and any other writing submitted to Bank by Debtor prior to execution of this Security Agreement are true, correct, complete, valid and genuine.

E. There are no other liens or encumbrances on any of the collateral provided for herein except a purchase money security interest will be placed against the following GMC/EMD, Model SD-24 Locomotives:

Road Number 6244	Serial Number 25201
6250	25207
6257	25209
6255	25212

6. Defaults. If any of the following events shall occur and shall not have been remedied to the satisfaction of Bank, then such events shall be considered a default under the terms of this Agreement:

A. Any representation or warranty made by the Debtor in this Agreement or in any communication by the Debtor to Bank, or in any request or certificate of the Debtor furnished to Bank hereunder shall prove to have been incorrect in any material respect then this event shall be a default;

B. If the Debtor fails to make the payment, when due, of any principal and or interest under the Note or any sum payable by the Debtor to Bank under this Agreement;

C. If the Debtor shall breach any of its agreed to obligations as set forth in this Agreement;

D. If any indebtedness for money borrowed to any person or entity, for which the Debtor is liable, as principal obligor, guarantor, or otherwise, is not paid at its stated maturity or is declared or otherwise becomes due and payable prior to its stated maturity;

E. If the Debtor shall; apply for, or consent to the appointment of a receiver, trustee or liquidator of itself, or of all or a substantial part of its assets; be unable, or admit in writing its inability to pay its debts as they fall due; make a general assignment for the benefit of its creditors; be adjudged a bankrupt or insolvent; or file a voluntary Petition in Bankruptcy or have a Petition filed against it for a reorganization, adjudication or otherwise;

F. If an order, judgment or decree shall be entered by any court or jurisdiction, approving a petition seeking reorganization of the Debtor or appointing a receiver, trustee, or liquidator of the Debtor, or of all or a substantial part of its assets;

G. If any act, condition, event or admission on the part of the Debtor, or the creditors of the Debtor occurs which shall reasonably cause Bank to deem its loan insecure;

H. Default in the observance or performance of any of the covenants or agreements of the Debtor set forth in any other documents

given or to be given the Bank to secure or initiate any advances of funds by Bank to the Debtor;

I. If any creditor of the Debtor shall cause any judgment or money decree to be entered by any court as against the Debtor and same shall not be satisfied within thirty (30) days of the date the same shall become final including appeal periods where execution is stayed, or should any proceedings be instituted to collect any such judgment or money decree from the Debtor or should any attachment on such judgment or money decree be laid in the hands of the Bank.

7. Bank's Rights Upon Default.

A. If any of the above events of default shall occur and shall not have been remedied to the satisfaction of Bank, then, and in that event, Bank may declare all the rest of any portion of the Note or any other loan owed by the Debtor to Bank and remaining unpaid, as immediately due regardless of normal maturity date, if any maturity date be different in nature or time from payment due upon demand which would be the normal form of note executed pursuant to this Agreement.

B. Upon default, Bank may take immediate possession of the collateral without notice or resort to judicial proceeding and enter upon the property where the collateral or any part thereof is located and remove the same therefrom; in addition, the Bank may require the Debtor to assemble the collateral and make it available to the Bank at a place designated by the Bank which is reasonably convenient to both parties.

C. Upon default Bank shall have the right to notify the Purchaser obligated on any Account, Contract Rights, Instrument or Chattel Paper or the party responsible for payment under a General intangible or Mortgage to make payments thereon directly to Bank and to take control of the cash and non-cash proceeds of any such Accounts, Contract Rights, Instruments, Chattel Paper, General intangibles or Mortgage. Until default and such time thereafter as Bank elects to exercise such right, Debtor is authorized on behalf of Bank to collect and enforce the Accounts, Contract Rights, Instruments, Chattel Paper, General intangibles and Mortgages. The cost of such collection and enforcement, including attorneys' fees and out-of-pocket expenses, shall be borne solely by Debtor, whether the same are incurred by Bank or Debtor. Debtor shall assign to Bank at Bank's option, all Chattel Paper and Instruments which it receives with respect to the rendering of

services or goods from the sale of which any Account or Contract Right arose.

D. Upon default, Debtor will, if requested by Bank, give Bank specific assignments of Accounts, Instruments, Chattel Paper, General intangibles and Mortgages that have or will come into existence, to enable Bank to enforce conveniently its security interest in any of the foregoing.

E. Upon default, Debtor will, if requested by Bank, mark its Instruments and Chattel Paper and all of its records concerning its Accounts, Contract Rights, Instruments, Chattel Paper, General intangibles and Mortgages which have been assigned to Bank in a manner satisfactory to Bank to show that they have been assigned to Bank.

F. Upon default, Debtor will, if requested by Bank, deliver to Bank with appropriate endorsement or assignment any or all Instruments or Chattel Paper held by it.

G. Upon default, Debtor will give Bank such financial statements, reports, certificates, lists of Purchasers (showing names, addresses and amounts owing), and other data concerning its Accounts, Contract Rights, Instruments, Chattel Paper, General intangibles, Mortgages, collections and other matters, including such financial statements which have been audited by an independent certified public accountant, as Bank may from time to time specify.

H. Debtor will be liable to Bank, for the cost of collection or enforcement (including attorney's fees) of any Accounts, Contract Rights, Instruments, Chattel Paper, General intangibles, Mortgages or other Collateral for Borrower's Liabilities to Bank, if Bank itself undertakes such collection or enforcement, together with all taxes, charges and expenses of every kind or description paid or incurred by Bank.

I. Debtor agrees that Bank shall have no duty or obligation to collect any Account, Instrument, Chattel Paper, General intangibles, mortgages or to enforce any Contract Right. Should Bank elect to collect or enforce or to compromise, extend or renew any Account, Contract Right, Instrument, or Chattel Paper, Debtor releases Bank from any claims for loss or damage arising from any act or omission in connection with such action, and Debtor waives notice by Bank of an action Bank takes with regards to same.

J. Bank may require that Debtor perform any and all other obligations required of Debtor under this Agreement

K. Upon default the Bank may, at its option, sell the collateral at public or private sale and Bank may also exercise any and all other rights and remedies of a secured party under the Commercial Law Article of the Annotated Code of Maryland or which are otherwise accorded to it by applicable law, all as Bank may determine. If notice of a sale or other action by Bank is required by applicable law, Debtor agrees that five (5) days' written notice to Debtor, or the shortest period of written notice permitted by such law, whichever is larger, shall be sufficient, and that to the extent permitted by such law, Bank, its officers, attorneys and agents may bid and become purchasers at any such sale, if public, and any sale (public or private) shall be free from any right of redemption which Debtor hereby waives and releases. No purchaser at any sale (public or private) shall be responsible for the application of the purchase money. Any balance of the net proceeds of sale remaining after paying all liabilities of Debtor to Bank, and all costs and expenses of collection, including, without limitation, reasonable attorneys' fees not to exceed 20% of the amount collected for the Bank, and after retaining as collateral security or applying as Bank may elect (in whole or in part at any time and from time to time) amounts equal to the aggregate of all liabilities of Debtor to Bank, shall be returned to Debtor; and if there is a deficiency, Debtor shall be responsible for the same, with interest.

L. The Debtor does hereby covenant that if there shall occur any event of default under the terms of this Agreement, or in the event any money or property of the Debtor in the possession of Bank is garnished or attached, which event shall constitute a default hereunder, any indebtedness to Bank by the Debtor may be set off and applied to the payment in whole or in part of the Note of the Debtor held under this Agreement by Bank.

8. Power of Attorney. Bank or any of its officers is hereby irrevocably made, constituted and appointed the true and lawful attorney for Debtor with full power of substitution to do the following acts at such time the Debtor is in default: (i) to endorse the name of the Debtor upon any and all checks, drafts, money orders and other instruments for the payment of moneys which are payable to Debtor and

constitute collections on Debtor's accounts, (ii) to execute in name of Debtor any schedules, assignments, instruments, documents, and statements which Debtor is obligated to give Bank hereunder; and (iii) to do such other and further acts and deeds in the name of Debtor which Bank may deem necessary or desirable to enforce Bank's security interest in any Collateral given hereunder for Debtor's liabilities to Bank.

9. Notices. All notices, requests, consents and demands called for under the terms of this Agreement shall be given by one party to the other of this Agreement by certified mail, return receipt requested, addressed in the following manner:

<u>Debtor</u>	<u>Bank</u>
Maryland Midland Railway, Inc. 34 Pennsylvania Avenue P.O. Box 455 Walkersville, Maryland 21793	Farmers and Mechanics National Bank 154 North Market Street Frederick, Maryland 21701

or at such other address as either party shall designate for itself in a written notice to the other party.

10. Miscellaneous.

A. Neither failure nor delay on the part of Bank to exercise any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

B. This Agreement and Note shall be deemed to be a contract made under the laws of the State of Maryland, and for all purposes shall be governed by the laws of that State. In the event that any provision hereof be deemed to be invalid by reason of the operation of any law or by reason of the interpretation placed thereon by any court, this Agreement shall be construed as not containing such provision and the invalidity of such provision shall not affect the validity of any provision hereof and any and all other provisions hereof which are otherwise lawful and valid shall remain in full force and effect.

C. This Security Agreement represents a use of the Debtor's accounts as security for any loans made by Bank to Debtor and shall not be construed as a sale of the collateral by Debtor to Bank.

D. The Debtor will pay to the Bank in connection with the preparation, execution and delivery hereof, of the Note, and of any and all other documents required by the Bank at its discretion, (1) attorney

fees (2) the costs of enforcing this Agreement (including all reasonable counsel fees), and in case of default under the terms of this Agreement or in case a default is made in the payment of the Note executed pursuant to this Agreement, then the costs of collection, including but not limited to, all court costs; fees for private process servers, if used; costs of repossession and foreclosure as set forth and described in this Agreement executed to secure payment of advances made by Bank pursuant hereto; and reasonable attorney fees not to exceed 20% of the outstanding balance of loans due Bank for advances made to Debtor under this Agreement; and (3) the costs of preparing and recording any security agreements and financing statements required by Bank.

E. This Agreement shall be binding on the successors and assigns of the parties hereto.

F. This Agreement contains the entire agreement between the parties hereto and no changes in this Agreement will be made unless such change is made in writing and agreed upon by all parties hereto.

G. In the event of conflict between the terms of any of the documentation relating to this loan or any other loan made by the Bank to the Debtor or the relationships and rights between Bank and the Debtor, Bank shall have the right to elect which of such conflicting terms shall be applicable in any such respective event of conflict.

WITNESS the hands and seals of the parties hereto on the day and year first above written.

ATTEST:

Robert M. Paul

ATTEST: Walter

Lillian M. Paul

MARYLAND MIDLAND RAILWAY, INC.

BY: James L. Stookey (SEAL)

James L. Stookey, President  
FARMERS AND MECHANICS  
NATIONAL BANK

BY: W. O. Hart (SEAL)



EXHIBIT 1

Frederick, Maryland

September 30, 1983

PROMISSORY NOTE

FOR VALUE RECEIVED, Maryland Midland Railway, Inc. promises to pay upon demand to Farmers and Mechanics National Bank, a body corporate, or order, the principal sum of Nine Hundred Thousand Dollars (\$900,000.00), bearing interest at the rate calculated below on the unpaid balance, until paid. Principal and interest shall be paid at the office of Farmers and Mechanics National Bank at 154 North Market Street, Frederick, Maryland.

Interest shall be calculated on the basis of a year containing three hundred sixty-five (365) days, and shall be charged on the principal balance outstanding from time to time for the actual number of days elapsed and shall accrue on the outstanding balance of such principal sum from and after the date hereof, at a rate of interest equal to the announced commercial prime rate of interest in effect from time to time at The Farmers and Mechanics National Bank for short term loans to those of its customers having the highest degree of creditworthiness, and such interest shall float on a daily basis as such prime rate shall be adjusted from time to time. Interest due hereunder if not otherwise demanded shall be paid in monthly installments, with a first installment of interest being due and payable on the 1st day of November, 1983, and with subsequent installments of interest being payable on the 30th day of each subsequent month, until all principal and interest due hereunder are fully paid.

Principal due hereunder, if not otherwise demanded, shall be paid in monthly installments of Three Thousand Seven Hundred Fifty Dollars (\$3,750.00) with a first installment of principal due on the 1st day of November, 1983, and with subsequent installments of principal being due and payable on the 1st day of each subsequent month until all principal and interest due hereunder are fully paid.

This Note is referred to in a Security Agreement dated the 30th day of September, 1983, (hereinafter called "Agreement") between the maker and Farmers and Mechanics National Bank (hereinafter called "Bank"). The Agreement is incorporated by this reference as a part of this Note.

An event of default as defined in the aforesaid Agreement shall be determined to be an event of default under the terms of this Note, and in the event of default in the payment of any of the installments of interest and/or principal set forth above and in the event of any default under the aforesaid Agreement, and/or upon maturity of this Note by demand or otherwise, the maker hereby authorizes any attorney designated by the holder of this Note to appear for it in any court of record and to waive the issuance and service of process and to confess judgment against it, hereby waiving and releasing all errors and rights of exemption, appeal, stay of execution, inquisition and extension upon any levy on real estate or personal property to which the maker hereof may otherwise be entitled under the laws of any state or possession in the United States now in force or which may hereafter be passed, for the unpaid principal amount of this Note, for the costs of suit, for unpaid interest, and for attorney fees of 20% of the outstanding amount due hereunder. If this Note is referred to an attorney for collection in the event of default under the Agreement, or in payment of the abovementioned interest installments, then even though a judgment had not been entered as against the maker, it agrees to pay all reasonable attorney fees as set forth in the Agreement, which sum shall not exceed 20% of the outstanding amount due hereunder.

The maker hereof hereby waives presentment, notice of dishonor, and all other demands and notices in connection with delivery, acceptance, performance, default or enforcement of this Note.

The loan represented by the within Note is a "commercial" and/or "business" loan as defined in Part 226 of Regulation Z as issued by the Board of Governors of the Federal Reserve System and as further defined in Title 12 - Credit Regulations of the Commercial Law Article of the Annotated Code of Maryland and as further defined by other applicable State and Federal laws and regulations.

Payment of this Note is also secured by a Mortgage on Maker's real property; said property being all and the same property which was granted and conveyed to the Maker on September 30, 1983 by a Deed from the Western Maryland Railway Company, said Deed intended to be recorded among the Land Records of Washington, Frederick and Carroll County, Maryland and Franklin County, Pennsylvania. Any event of default as defined in

the aforesaid mortgage shall be determined to be an event of default under the terms of this note.

Payment is further secured by the terms of certain Guaranty Agreements with one such guaranty being signed by James L. Stookey and Mary Alice Stookey, his wife, with another being signed by G. A. Chadwick, Jr., and another being signed by James E. Stewart.

IN WITNESS WHEREOF, the maker has caused this promissory Note to be executed by its President, attested to by its Secretary, with corporate seal attached on the day and year first above written.

ATTEST:

MARYLAND MIDLAND RAILWAY, INC.

\_\_\_\_\_  
Secretary

BY: \_\_\_\_\_ (SEAL)  
James L. Stookey, President

EXHIBIT 2

All Railroad Machinery, Railroad Equipment and other equipment now owned and hereafter acquired by the Debtor together with all equipment, parts, and accessories used in connection with said property, and all additions and accessions thereto, including but not limited to the following items which are now in the possession of and owned by the Debtor:

ROLLING STOCK:

- 1     Alco RS-3 Locomotive, Road Number 301, Builder's Number 81359
- 1     GMC/EMD, Model SD-24 Locomotive, Road Number 6244, Serial Number 25201
- 1     GMC/EMD, Model SD-24 Locomotive, Road Number 6250, Serial Number 25207
- 1     GMC/EMD, Model SD-24 Locomotive, Road Number 6252, Serial Number 25209
- 1     GMC/EMD, Model SD-24 Locomotive, Road Number 6255, Serial Number 25212
- 1     Whitcomb Locomotive, Road Number 102, Builder's Number 60471
- 1     Steel Box Car, Road Number 8001
- 1     Steel Box Car, Road Number 8002
- 1     Steel Box Car, Road Number 8003
- 1     Gondola Car, Road Number 201
- 1     Flat Car, Road Number 6001
- 1     Passenger Coach, Road Number 6415
- 2     Track Cars (motorized)
- 1     Ballast Car, Road Number 1564
- 1     Ballast Regulator, Model 2FW-J, Serial Number 2FW-652

TRACK:

All Track, Ties, Switches, Switch Parts, Ballast Spikes and other component parts of the Railway Bed.

OFFICE EQUIPMENT:

All Office Equipment including but not limited to Chairs, Desks, and other furniture, Typewriters, Displaywriters and similar equipment, Adding Machines, Calculators, Reproduction Equipment and Office Supplies.

CERTIFICATION

COUNTY OF FREDERICK, STATE OF MARYLAND, TO WIT:

This is to certify that the undersigned, a Notary Public in and for the above-listed county and state, has examined the original security agreement made the 30th day of September, 1983, by and between Maryland Midland Railway, Inc., whose main office is 34 Pennsylvania Avenue, P.O. Box 445, Walkersville, Maryland 21793, and Farmers and Mechanics National Bank, a National Bank and Association, with its main office a 154 N. Market Street, Frederick, Maryland 21701, and that in all respects, the attached copy is a true and correct copy of the original.

  
Notary Public



My Commission Expires:  
July 1, 1986